



2300 N Street, NW
Suite 600
Washington, DC 20037
202/663-9063
1/800/452-0689
Fax 202/663-9065

EX PARTE OR LATE FILED

DOCKET COPY ORIGINAL

Kathryn C. Falk
Director - Government Relations

September 15, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, D.C. 20554

RECEIVED

SEP 15 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re National Exchange Carrier
Association, Inc.

Proposed Revision of Part 69
of the Commission's Rules to
Allow for Incentive Settlement
Options for NECA Pool Companies

Notice of Ex Parte Presentation
RM 8389

Dear Mr. Caton:

On August 15, 1995, NECA representatives Victor Glass and Bill Cook met with John Scott and Gregory Cooke of the FCC's Common Carrier Bureau to discuss key features of the NECA optional pool incentive plan.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purposes and remitting same to bearer

Very truly yours,

Kathryn C. Falk

cc: John Scott
Gregory Cooke

No. of Copies rec'd
List ABCDE

012

NECA POOL INCENTIVE PLANS

September 15, 1995

RECEIVED

SEP 15 1995

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

1. Overview
2. Current NECA Pooling Process
3. Settlement Forms
4. NECA Incentive Plan Descriptions
5. Incentive Plan Settlement Forms
6. Customer Dividend Settlement Rate Calculations
7. Small Company Settlement Rate Calculations - For Cost Companies
8. Small Company Settlement Rate Calculations - For Average Schedule Companies
9. Tariff Rate Development - Traffic Sensitive Switched Access
10. Tariff Rate Development - Traffic Sensitive Special Access
11. Tariff Rate Development - Common Line
12. General Information on Settlement/Tariff Rates
13. NECA Reply Comments on Incentive Settlement Options for Pool Companies

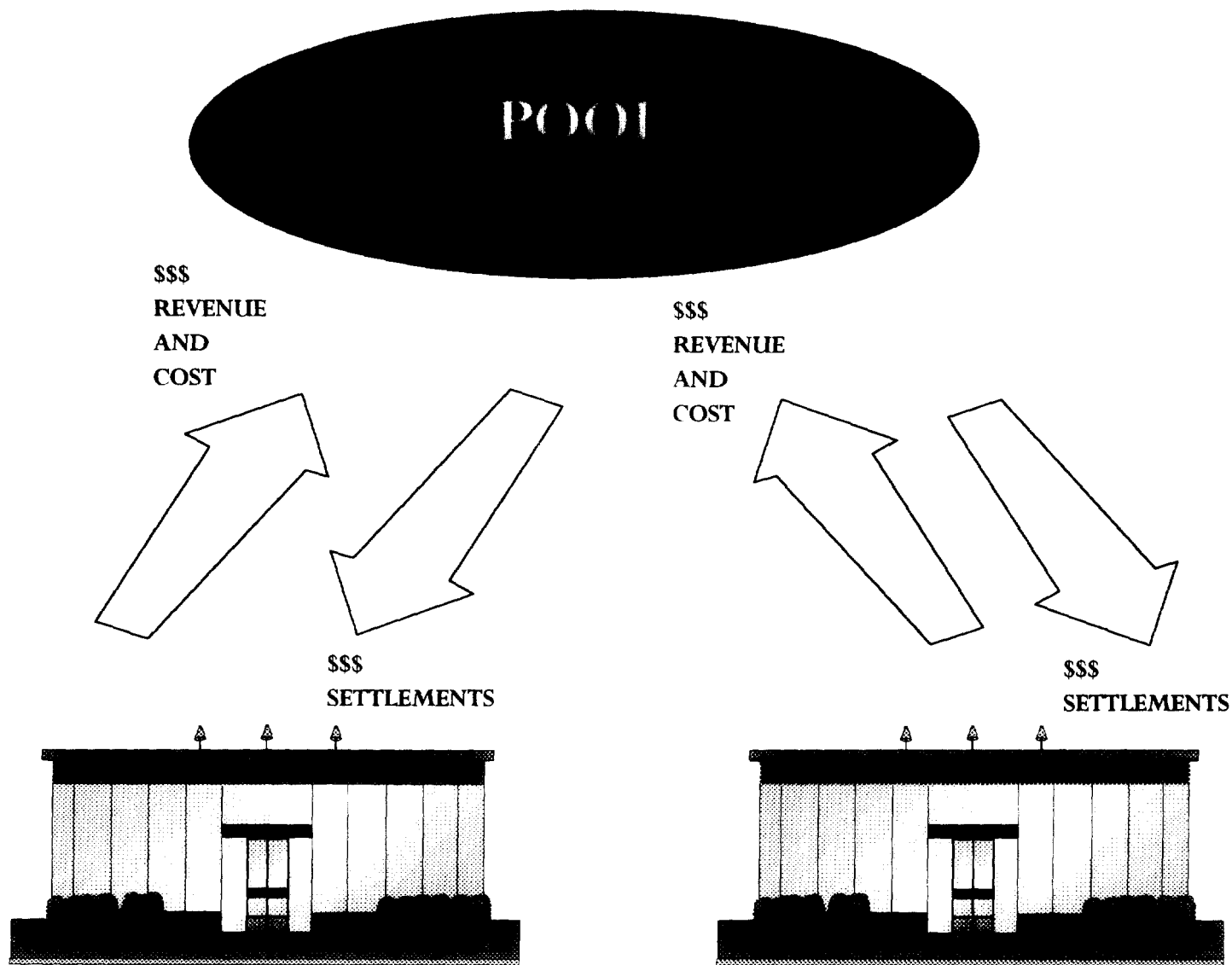
OVERVIEW

- **Want to show**
 - **Incentive regulation has led to lower access rates for comparable companies outside the pool.**
 - **Optional Incentive regulation can work as well inside the pool as outside.**
 - **NECA's incentive options will not affect the behavior of traditional pool members.**
 - **Pooling mechanics are virtually unaffected by the introduction of incentive options.**

OUTLINE

- Outline of Topics
 - Overview of current pooling activities
 - General description of the incentive options and their effects on rate development and pooling
 - Detailed description of incentive formulas and applications
 - Detailed description of tariff rate development with the new options available

THE POOLING CONCEPT

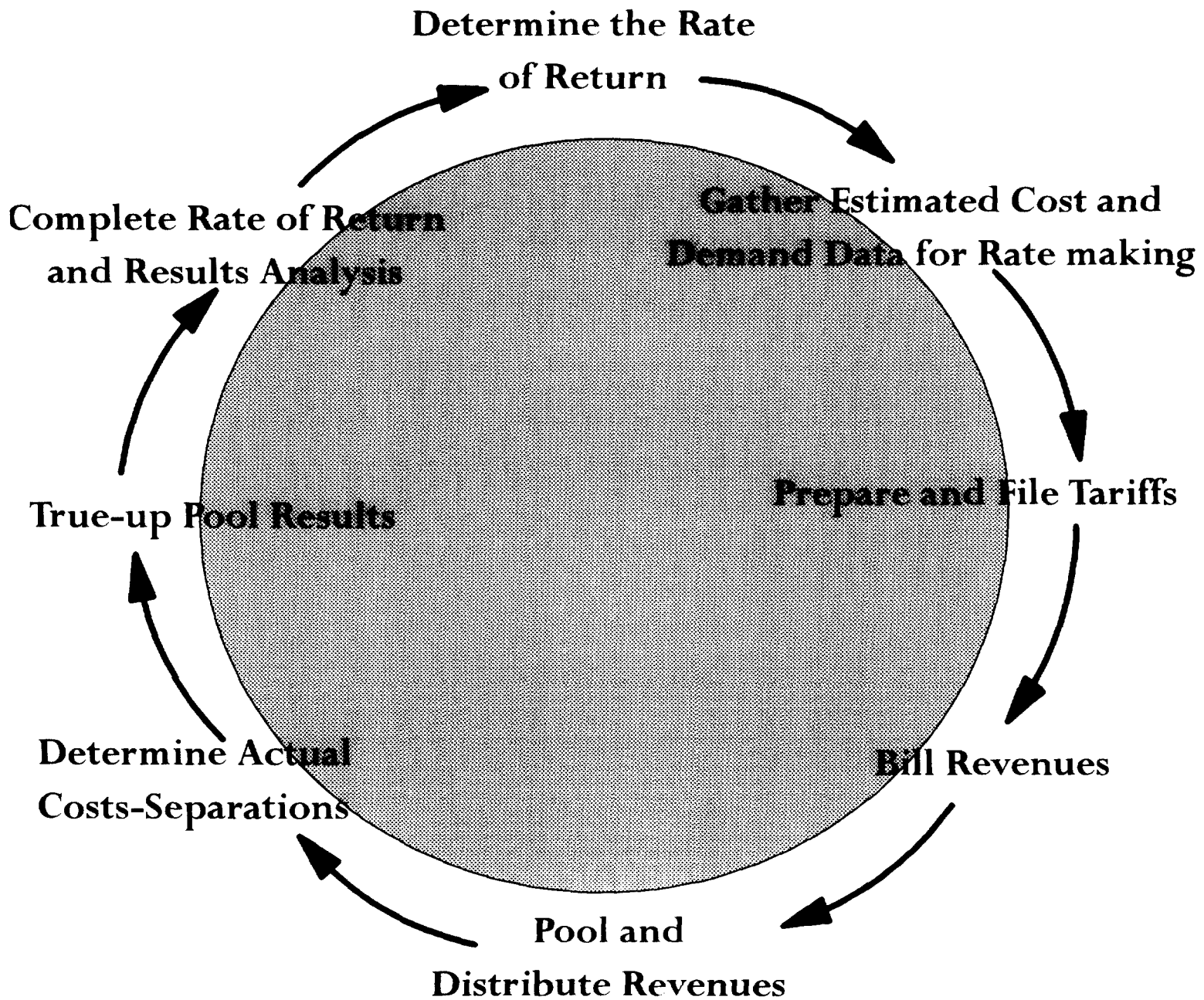


REVENUE = Earned dollars billed to ICs and End Users

SETTLEMENTS = Amount EC is entitled to recover from pool:

- **Average Schedule: Demand Items X Formulas**
- **Cost: Expenses + taxes + return on investment**

REGULATORY CYCLE



RATE DEVELOPMENT

Part I

Demand Forecasts

- **Step 1 - Total Pool Forecasts**
 - ▬ **Total CL pool forecast of CCL demand using econometric models**
 - ▬ **Total CL pool forecast of end user revenue using time series techniques**
 - ▬ **Total TS pool forecast of special access revenue using time series techniques**
- **Step 2 - Develop access element forecasts**
 - ▬ **Use either historical relationships or pool member supplied relationships applied to aggregate forecasts**
- **Step 3 - Develop TS MOU - related forecasts**
 - ▬ **Forecast CCL MOU by study area using trending techniques**
 - ▬ **Reconcile these forecasts with CL pool forecasts**
 - ▬ **Rescale individual study area forecasts to sum to the pool-level forecasts**
 - ▬ **Sum CCL forecasts for TS pool members**
 - ▬ **Apply TS-to-CL factors to summed CCL forecasts to derive TS MOU related forecasts**

RATE DEVELOPMENT

Part 2

Revenue Requirement Forecasts

- **The sum of**
 - **Cost Company revenue requirements**
 - **Average Schedule forecasts**

Rates Calculations

- **Divide revenue requirement categories by their own demand categories**

REVENUE REQUIREMENT

- Revenue required to stay in business and earn the FCC prescribed rate of return of 11.25%
- Reimburses the EC for:
 - expenses and taxes - \$ for \$
 - return on their investment at pool earnings level - 11.25% or current rate



FCC RULES & REGULATIONS

Part 32

Uniform System of Accounts



Unregulated ← **Part 64**

Miscellaneous Rules

Regulated Business



Part 36 → *Intrastate*

Jurisdictional Separations

Interstate



Part 69 → *Billing & Collection*

Access Charges



Common Line

- CCL
- EU



Traffic Sensitive

- Switched
- Special

COST RECOVERY MECHANISMS

BASIS OF INTERSTATE SETTLEMENTS

Average Schedule

Compensated for costs using a set of formulas based on average costs developed by NECA and approved by FCC.

Cost

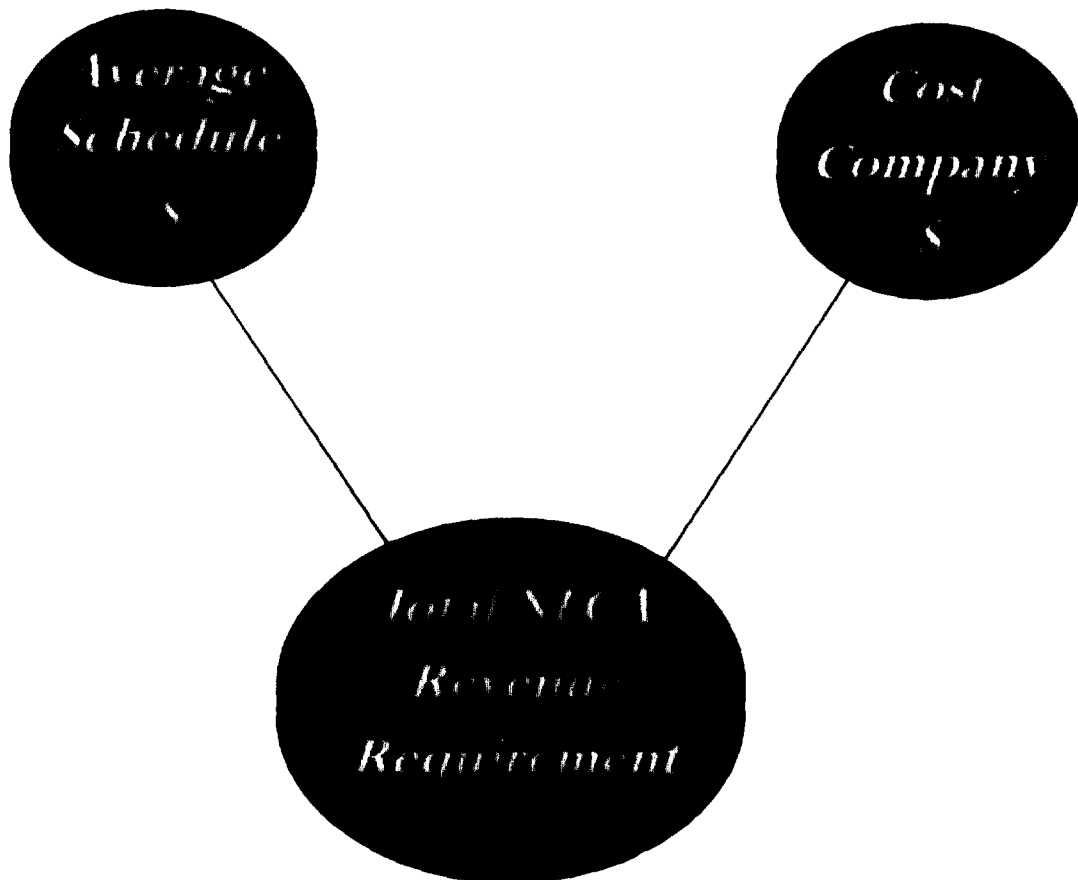
Compensated for expenses using EC's individual data including a common return on investment.

POOLING ADJUSTMENTS

- **Data true-ups**
- **Rate-of-Return adjustments for differences between the realized and authorized earnings.**

NECA Revenue Requirement

Current



NECA SETTLEMENTS

EC1050 ORIGINAL REPORT

EC1050-0
09/95COMPUTED: MMM,YYYY REG:
APPLIES TO: MMM,YYYY
DATA TYPE: XXX

SUBSET: _____

CC: _____
CO: _____
SA: _____
CSLT: _____

	SRC (A)	AMOUNT (B)	
----- COMMON LINE -----			
1. Access Minutes	_____	_____	
2. Access Lines in Svc	_____	_____	
3. CCL Earned Revenues:			
A) Premium	_____	_____	
B) Non-Premium	_____	_____	
C) Sp Accs Surcharge	_____	_____	
4. CCL Net Realzd Uncol	_____	_____	
5. CCL Net Earned Rev [3-4]	_____	_____	
6. EU Earned Rev	_____	_____	
7. EU Net Realzd Uncol	_____	_____	
8. EU Net Earned Rev [6-7]	_____	_____	
9. CL Exp & Other Tax	_____	_____	
10. CL Avg Net Invmt	_____	_____	
11. CL Income AFUDC	_____	_____	Add.
12. CL Incm Adj for FIT	_____	_____	
13. CL FIT Tax Credit	_____	_____	
----- TS - SWITCHED ACCESS -----			
14. SW Earned Rev	_____	_____	
15. SW Net Realzd Uncol	_____	_____	
16. SW Net Earned Rev [14-15]	_____	_____	
17. SW Exp & Other Tax	_____	_____	
18. SW Avg Net Invmt	_____	_____	
19. SW Income AFDUC	_____	_____	Add
20. SW Incm Adj for FIT	_____	_____	
21. SW FIT Tax Credit	_____	_____	
----- TS - SPECIAL ACCESS -----			
22. SP Earned Rev	_____	_____	
23. SP Net Realzd Uncol	_____	_____	
24. SP Net Earned Rev [22-23]	_____	_____	
25. SP Exp & Other Tax	_____	_____	
26. SP Avg Net Invmt	_____	_____	
27. SP Income AFUDC	_____	_____	Add
28. SP Incm Adj for FIT	_____	_____	
29. SP FIT Tax Credit	_____	_____	
----- LIFELINE ASSISTANCE -----			
30. Lifeline Connection	_____	_____	
31. EU SLC Waiver	_____	_____	

COMMENTS: _____

_____PREPARED BY: _____ DATE: ____/____/____ TEL: (____) _____
CERTIFIED BY: _____ DATE: ____/____/____ TEL: (____) _____ Pursuant to FCC Rules, Section 69.601, ECs are required to certify EC1050 data.
PRINTED: MM/DD/YY, HH:MM AM ET CREATED: MM/DD/YY, HH:MM AM ET

NECA SETTLEMENTS

SETTLEMENT SUMMARY
COST COMPANY

EC3050-0

04/89

Page 1 of 2

COMPUTED: MM,YYYY
APPLIES TO: MM,YYYYREG: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

SUBSET: _____

	STUDY AREA (A)	TOTAL POOL (B)
----- NET BALANCE SUMMARY -----		
1. EU Net Balance [34-17]	_____	_____
2. CCL Net Bal.+ Support [35A+9A+10A+15A-16A]	_____	_____
3. TS Net Balance [3050, 53A-36A]	_____	_____
4. EU Prior Period Net Adj [2053,50D]	_____	_____
5. CCL Prior Period Net Adj [2053,25D]	_____	_____
6. TS Prior Period Net Adj [2053,75D]	_____	_____
7. USF & LA Prior Period Net Adj [2053,100E]	_____	_____
8. TOTAL NET BALANCE [1 Thru 7] If Positive, NECA Pays EC If Negative, EC Pays NECA	_____	_____
----- SUPPORT DATA -----		
9. Long Term Support	_____	_____
10. Transitional Support	_____	_____
11. Reserved	_____	_____
12. USF	_____	_____
13. Lifeline Connection [1050,30]	_____	_____
14. EU SLC Waiver [1050,31]	_____	_____
15. Total USF+LA [12A+13A+14A]	_____	_____
----- COMMON LINE -----		
16. CCL Net Earned Revenue [1050,5]	_____	_____
17. EU Net Earned Revenue, [1050,8]+14* (*NECA Cost Co. Tariff Participants Only)	_____	_____
18. NECA Administrative Costs - CL	_____	_____
19. Average Schedule Cos. - CL Net	_____	_____
20. CL Expenses & Other Taxes [1050,9]	_____	_____
21. CL Inc From Int. Chrg Constr. [1050,11]	_____	_____
22. CL Amount Available for Tax & Residue [16B+17B+21B-9B-18B-19B-20B]	_____	_____
23. CL Income Adjustment for FIT [1050,12] (Imputed if Tax Exempt)	_____	_____
24. CL Income Subject to FIT [22B-23B]	_____	_____
25. CL FIT [24Bx.34]	_____	_____
26. CL FIT Credit [1050,13]	_____	_____
27. CL Adjusted FIT [25B-26B]	_____	_____
28. CL Residue for Distribution [22B-27B]	_____	_____
29. CL Average Net Investment [1050,10]	_____	_____
30. CL Residue Ratio [28B/29B]	_____	_____
31. CL Residue Distribution [29x30B]	_____	_____
32. CL FIT Allowance [(31-23-26) x .515151515]-26]	_____	_____
33. CL Settlement [20+31+32-21]	_____	_____
34. EU Settlement [17]	_____	_____
35. CCL Settlement [33-34]	_____	_____

PRINTED: MM/DD/YY, HH:MM AM ET

CREATED: MM/DD/YY, HH:MM AM ET

NECA SETTLEMENTS

SETTLEMENT SUMMARY
COST COMPANYEC3050-0
04/89
Page 2 of 2COMPUTED: MMM, YYYY
APPLIES TO: MMM, YYYYREG: _____ SUBSET: _____
CC: _____
CO: _____
SA: _____
CLST: _____

	STUDY AREA (A)	TOTAL POOL (B)
---- TS - SWITCHED & SPECIAL ACCESS ----		
36. TS Net Earned Revenue [1050,16+24]	_____	_____
37. NECA Administrative Costs - TS	_____	_____
38. Average Schedule Cos. - TS Net	_____	_____
39. TS Expenses & Other Taxes [1050,17+25]	_____	_____
40. TS Inc from Int. Chrg Constr.[1050,19+27]	_____	_____
41. TS Amount Available for Tax & Residue [(36+40)-(37+38+39)]	_____	_____
42. TS Income Adjustment for FIT [1050,20+28] (Imputed if Tax Exempt)	_____	_____
43. TS Income Subject to FIT [41B-42B]	_____	_____
44. TS FIT [43Bx.34]	_____	_____
45. TS FIT Credit [1050,21+29]	_____	_____
46. TS Adjusted FIT [44B-45B]	_____	_____
47. TS Residue for Distribution [41B-46B]	_____	_____
48. TS Average Net Investment [1050,18+26]	_____	_____
49. Reserved	_____	_____
50. TS Residue Ratio [47B/48B]	_____	_____
51. TS Residue Distribution [48x50B]	_____	_____
52. TS FIT Allowance [((51-42-45) x .515151515)-45]	_____	_____
53. TS Settlement [39+51+52-40]	_____	_____

PRINTED: MM/DD/YY, HH:MM AM ET

CREATED: MM/DD/YY, HH:MM AM ET

FVR-9

NECA SETTLEMENTS

AS1000 ORIGINAL VIEW
AVERAGE SCHEDULE

AS1000 0

5/95

COMPUTED: MMM, YYYY
APPLIES TO: MMM, YYYY
DATA TYPE: XXXREG: _____
CO: _____
SA: _____AMOUNT
(A)

----- COMMON LINE -----

1. Prem Access Minutes	_____
2. Access Lines in Service	_____
3. CCL Premium Earned Rev	_____
4. CCL Non-Premium Earned Rev	_____
5. CCL Sp Accs Surcharge	_____
6. CCL Net Realzd Uncol	_____
7. CCL Net Earned Rev (3+4+5-6)	_____
8. EU Earned Rev	_____
9. EU Net Realzd Uncol	_____
10. EU Net Earned Rev (8-9)	_____
11. Reserved	_____
12. CL Other	_____

----- TRAFFIC SENSITIVE -----

13. TS Switched Access Minutes	_____
14. Circuit Miles	_____
15. Reserved	_____
16. ITD Circuits	_____
17. SW Earned Rev	_____
18. SW Net Realzd Uncol	_____
19. SW Net Earned Rev (17-18)	_____
20. SP Earned Rev	_____
21. SP Net Realzd Uncol	_____
22. SP Net Earned Rev (20-21)	_____
23. Reserved	_____
24. Reserved	_____
25. Switched Circuit Terminations	_____
26. TS Other	_____

----- OTHER -----

27. Reserved	_____
28. Other	_____

----- LIFELINE ASSISTANCE -----

29. Lifeline Connection	_____
30. EU SLC Waiver	_____

COMMENTS: _____

PREPARED BY: _____ DATE: ____/____/____ TEL: () _____

*CERTIFIED BY: _____ DATE: ____/____/____ TEL: () _____

*Pursuant to FCC Rules, Section 69.601, ECs are required to certify AS1000 data.

PRINTED: MM/DD/YY, HH:MM AM ET CREATED: MM/DD/YY, HH:MM AM ET

AS3000-O

7/95
Page 1 of 2

CO: _____
SA: _____

AMOUNT
(A)

-
-
-
-
-
-

[illegible]

CREATED: MM/DD/YY, HH:MM

NECA SETTLEMENTS

AS3000-C

AS3000 SETTLEMENT SUMMARY ORIGINAL VIEW
AVERAGE SCHEDULE7/9
Page 2 ofCOMPUTED: MM,YY
APPLIES TO: MM,YYCO: _____
SA: _____

	AMOUNT (A)
TRAFFIC SENSITIVE	
32 SW NET EARNED REVENUE 1000.19	
33 SP NET EARNED REVENUE 1000.22	
34 RESERVED	
35 SS7 FULL CONNECTIVITY: \$1,933 per SSP	
36 SS7 PARTIAL CONNECTIVITY: \$668 per SSP	
37 TS OTHER (1000.26+(1000.28 x (32+33)/(16+17+32+33)))	
38 NUMBER OF EXCHANGES	
39 TS SWITCHED ACCESS MINUTES 1000.13	
40 ITD SETTLEMENT 1000.16 x \$21.64	
41 CIRCUIT MILES 1000.14	
42 MINUTES PER ACCESS LINE (39/22)	
43 TS CENTRAL OFFICE ACCESS LINE FACTOR: If 22 GT or = 10,000, Then: 43 = 1.0 If 22 LT 10,000, Then: 43 = 2.369184 - (.0001369184 x 22)	
44 SWITCHED CIRCUIT TERMINATIONS 1000.25	
45 RESERVED	
46 RESERVED	
47 TARIFF RATE INDEX	
48 TS SPECIAL BASIC SCHEDULE 1000.20 x .960903 x 47	
49 TS SWITCHED BASIC SCHEDULE If 42 LT or = 350, Then: 49 = ((.027396 x 39)+(356.96 x 38)) x 43+\$1,538.16 If 42 GT 350 but LT or = 700, Then: 49 = ((.027396 x (350 x 22)) + (356.96 x 38)) x 43+\$1,538.16 +((.023714 x (39-(350 x 22))) x 43) If 42 GT 700, Then: 49 = ((.027396 x (350 x 22)+(356.96 x 38)) x 43+\$1,538.16 +((.023714 x ((700-350) x 22)) x 43) + (.005 x (39-(700 x 22)))	
50 TRANSPORT MILEAGE BASIC SCHEDULE If 41 = 0, Then 50 = 0 If 41 GT 0, Then: 50 = (.897404 x 41)+(,0013 x 39)	
51 TRANSPORT TERMINATION BASIC SCHEDULE 44 x \$35.71	
52 TOTAL TS BASIC SCHEDULE 35+36+37+40+48+49+50+51	
53 REALIZED RESIDUE RATIO	
54 RETURN FACTOR .684427+(2.805093 x 53)	
55 TS REALIZED SCHEDULE 52 x 54	
56 TS SETTLEMENT 55	

PRINTED: MM/DD/YY, HH:MM

CREATED: MM/DD/YY, HH:M

Similarities Traditional vs. Incentive Pooling

- **Pooling operations almost identical to those for average schedules**
- **No Change in demand forecast process**
- **Revenue Requirement would be the sum of Cost + Average Schedule + Incentive**

CUSTOMER DIVIDEND INCENTIVE OPTION

- Election at the study area level for cost companies
- ECs can elect TS only, or combined TS and CL pools. A two, two-year commitment is required.
- EC-specific settlement rates are calculated for CL, TS SW & TS SP
- ECs charge NECA's tariff rates, but recover from the pool based on their own settlement rates
- Each Tariff period NECA will adjust the settlement rate to reflect a customer dividend which lowers the sett. rate by a predetermined amount (proposed .65%).
- Settlement rates are reset each incentive period to earn the authorized ROR and to account for exogenous rule changes